

A £52 billion corporate tax gap

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According to the [FT over the weekend](#):

Listed companies in developed markets are avoiding at least \$82bn of tax a year by using tax havens and other minimisation strategies, according to detailed analysis of more than 1,000 businesses.

The revelation comes as campaigners and investors have increased their focus on the impact of corporate tax avoidance on public finances at a time of widespread austerity.

As they note:

The analysis, conducted by MSCI, the index provider, suggested companies in the healthcare and information technology sectors were among the biggest tax avoiders, in line with anger over the level of tax paid by the likes of Apple, Google, Microsoft and Amazon.

The methodology was fair:

MSCI estimated the size of the global corporate tax gap by calculating the average annual tax rate paid between 2009 and 2013 by the 1,505 companies in the MSCI World index, which accounts for about 85 per cent of stock market capitalisation in 23 developed countries.

Stripping out lossmaking companies, miners and property groups, MSCI then estimated each of the remaining 1,093 companies' potential tax rate by calculating the weighted average tax rate in the countries where they derive their revenues. The tax gap is the difference between these two figures.

The results were unsurprising in many ways:

More than a third of healthcare and technology companies are among those with large tax gaps, MSCI found, along with a quarter of those in the energy and materials sectors.

At least 40 per cent of MSCI World companies domiciled in Bermuda, Ireland, Belgium, the Netherlands, Switzerland, Canada, Hong Kong and Luxembourg were found to have large tax gaps, along with 27.1 per cent of US companies and 22.5 per cent from the UK. Japan came bottom of the list, with just 7 of its 193 companies in this camp.

As I was noted as saying:

Richard Murphy, a founder of the Tax Justice Network, a campaign group, said MSCI's estimate of the size of the global tax gap was "reasonable", although it may understate the true figure, given the tax deferral activities many companies use to lower their bills.

Mr Murphy estimated corporate tax avoidance in the UK alone amounted to £12bn in 2008, although this figure is likely to have fallen since given a cut in the corporation tax rate from 28 per cent to 20 per cent.

The last comment is undoubtedly true: just because of the tax rate it is likely that by now one third of the tax gap will have disappeared since 2008. But the other point is important too: if, as seems likely, MSCI used headline tax figures deferred tax accounting may have hidden at least part of the tax gap that is lost to view as a result of that opaque accounting mechanism that appears to be primarily designed to spread misinformation on this issue. The estimate will be at the low end as a result, in my opinion.

But it's useful, nonetheless.